

When to Use an Executive Search Firm and How to Get the Most Out of the Relationship

Barry Shulman and Gordon Chiang

Several recent surveys have shown that more and more companies are relying on search firms to help fill their executive ranks with the talent they need to stay competitive. In its 2006 study, the Association of Executive Search Consultants (AESC) reported that executive searches worldwide were up 6 percent from the first quarter in 2005 to the second quarter in 2006. In North America, there was a 10 percent increase in the use of executive search consultants in the first quarter of 2006 compared with the first quarter of 2005.

This may come as no surprise, as competition for executive talent remains intense. According to one of AESC's spokespersons, "AESC member firms worldwide are talking about the ever-increasing challenge of recruiting top talent for clients due to incessant demand in most major economies and a scarcity of top-grade executives."

Even with the use of executive search firms on the rise in the quest for top talent, many companies still rely on their own in-house resources to fill most of their open positions. The reasons for this are varied. Some companies believe they have sufficient resources and knowledge in-house, whereas others simply want to avoid paying a fee to outside search firms, regardless of their ability to fill mission-critical positions.

Of course, no company looks forward to paying a fee to outside consultants when it doesn't need to. But the stakes can be very high if the wrong person is recruited into a strategic position. The industry rule of thumb is this: The wrong person hired into a position costs the company three times his or her annual salary. A person hired for \$50,000, therefore, would cost the company \$150,000 if it had to sever the relationship and find a replacement, and a person with a \$150,000 salary would cost the company \$450,000 to fix the mistake. Then there's the opportunity cost that comes from lost momentum and lost business. It's hard to put a specific price tag on this cost from industry to industry, but the impact on the bottom line can be significant.

The questions companies need to ask, therefore, are: When should a company handle a search on its own? When does it make sense to bring in a professional recruiting firm to conduct a search? And how does one select and evaluate an outside executive search firm?

This article addresses the key points that human resource professionals and hiring managers need to consider when evaluating when to use in-house staff and when to hire an outside executive search firm. Readers will also learn what to look for in a recruiting firm to get the most out of using an executive search firm.

THE RIGHT STAFF TO FILL THE RIGHT JOBS

First and foremost, you'll need to evaluate whether your company has adequate resources to conduct searches for key executives and specialized talent. Is your staff equipped with the right skills and the right contacts in the marketplace to aggressively search for high-level talent? Do they have the skills to scan the marketplace to identify the right candidates, evaluate them, engage them, sell them on your company, and prepare them to interview within your company?

In general, most companies' HR departments are made up of HR generalists and specialists in compensation, benefits, and other employee-related fields. Most companies also have in-house staff members who are experts at processing incoming, unsolicited resumes, as well as resumes in response to an advertisement. And some have full-time recruiting

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specialists who know the ins and outs of the executive positions in the company and can search the marketplace to find and attract the best talent. But not all companies are so equipped.

Therefore, in conducting such an analysis of your staff's abilities, you'll need to determine whether the members of your staff have the necessary skills to complete searches for all levels of candidates, or whether their talents are limited to successfully filling entry-level and mid-level positions only—positions that are usually advertised through print sources and the Internet.

Outside executive search consultants conduct executive searches all day, every day. They understand the function of proactive

outreach for the highest levels of on-target candidates. They are adept at sourcing contacts from previous searches. In other words, they go find the candidates they need. They don't wait for the right person to answer an ad or send in a resume.

If these skills don't already exist among your staff, you'll need to hire internal recruiters or retain a search firm for your specialized high-level searches.

The depth of knowledge found in outside search firms is a key differentiator. Our firm, for example, handles executive searches in corporate communications, public relations, marketing communications, and other positions that are closely related to the function of delivering the right profile and brand messages to the company's various constituencies—customers, shareholders, employees, opinion leaders and the public at large. That's all we do. We've been doing this for 20 years. We are experts in this field. We don't recruit talent for any other positions within client companies.

Many executive search firms have followed this example and have become specialists in one function or a handful of functions. Others have specialized in one or two industries. As an example of a sector specialization, the financial services sector has the largest number of specialized executive recruiting firms of any industry, according to the AESC.

CONDUCTING SEARCHES CAN BE A FULL-TIME JOB

Conducting a search for most high-level positions is a full-time job, for one person if not more. Therefore, you'll also need to determine whether you have the bandwidth among your in-house staff to conduct the searches required to fill your open positions. You'll also need to determine the best use of

your staff—in other words, which individual(s) to put on which searches.

If you find you have the talent on staff to conduct outbound searches, then you need to decide how to manage this resource. For example, when should you pull a staff member off one assignment to work on an even more critical vacancy?

Each search has its own processes to develop and follow, so you'll need to consider the best way to develop these processes, including how to effectively evaluate internal candidates against outside candidates.

Many high-level searches take months to complete. As a result, your in-house resources will need to be available over a long period of time. This may negatively affect the ability of your HR staff to successfully complete other important projects and priorities. The intensity and hours required to complete any high-level search may tip the scales in favor of hiring an outside executive search consultant for some of your more specialized requisitions.

A BROAD NETWORK IS KEY

One must also evaluate the extent of your company's network within the function and industry in which you seek a candidate. If you are recruiting for a new Chief Marketing Officer, for example, does your human resource staff or any member of your marketing department have adequate in-depth relationships in relevant professional organizations and associations where candidates can be identified? Even more importantly, because ideal candidates for many senior positions often come from different industries, you must evaluate the breadth of your staff's networking capabilities across all industries and in far-reaching geographic regions. And how comfortable are they in reaching out to unknown candidates?

Do they know enough about the industry to engage candidates and be viewed as credible by them?

Because executive search firms generally specialize in one function or a handful of functions across several industries, their knowledge of where to find the best candidates is often worth the price of admission. In our firm, for example, because we have placed executives and mid-level managers in the vast array of communications functions—from head of corporate communications, to corporate marketing officers and other related positions across many industries—we know what makes a successful candidate in these functions and, more importantly,

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where to find the existing and up-and-coming talent. By specializing, executive recruiting firms guarantee their clients the depth required in their dedicated fields to be able to find the best candidates to fill any position.

NEED FOR CONFIDENTIALITY

Considering the need for confidentiality is another key point in deciding whether to conduct a candidate search with in-house resources. Take, for example, the need to find a replacement for a position that still has an incumbent in place; this may be too sensitive a task for your in-house staff to handle and should be outsourced to a third party. In-house rumor mills can undermine your company's ability to find new talent for your organization and can also cause a dip in productivity if the position being filled is a critical one.

When the AESCs recently surveyed more than 150 corporate executives about what they valued most in the services of executive search firms, 79 percent of the respondents said their number-one concern was "the confidential treatment of information during the search engagement."

ASSESSING EACH STEP OF THE PROCESS

Another way to assess the value of using in-house staff versus outsourcing your searches is by looking at the various steps required in an executive search, as follows.

1. Conduct the Initial Analysis and Create Job Specs

You may feel confident that both your HR manager and the hiring manager within your organization can successfully complete the

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initial analysis of the position to be filled. After all, they work for your organization and therefore know intimately your corporate culture and what kind of management style works well in your company. They can clarify job requirements, specifications, and the reporting structure, and outline the compensation package.

What we have found, however, is that hiring managers often map out what they want, but what they want doesn't always track with the real world or with what excellent candidates actually look like in terms of skills, experience, and expertise.

To avoid going down the wrong path, we have found that this early analysis of the job

description must also reflect the realities of the market, including the level of talent that is available in the marketplace and what kind of compensation will be required to attract it. Outside consultants often are better informed of how other companies in the same industry are defining, structuring, and compensating for similar positions, and therefore they may be able to bring valuable information into this early analysis stage.

Another reality check that is helpful in this early stage is to get all the tough questions on the table. This helps clarify issues about organizational structure, strengths and weaknesses in the department, reporting relationships, and priorities. Sometimes outside consultants, with no vested interest in the outcome, are best equipped to raise these sensitive issues.

Regardless of whether your job specs are completed by in-house professionals, outside consultants, or a combination of the two, it's important to remember that companies can waste valuable time by not concentrating adequate attention on the job specifications in the early stages of a search. If this is not accomplished, companies can encounter several problems, including trying to put too many functions into one job or miscalculating what kinds of skills are required. Without adequate assessment up front, companies can get a false start in finding their talent and will need to start over once the adjustments are made.

In order to avoid this, we at Shulman Associates advise our clients to bring us in as early as possible when they initiate an executive search. That way, we help brainstorm with the HR manager and hiring manager; we bring our industry-wide perspective and objectivity to the discussion; and we gain the necessary insights into the nature of the company that will help us during the search. If a client simply sends over a requisition and says, "Fill this ASAP," we will be severely handicapped in

finding the perfect match, and in most cases, we will not accept the assignment.

We do not charge our clients any additional fee for doing this upfront work even though the payoff to the client is huge. We often wonder why other executive search firms don't offer this service.

2. Research and Find Appropriate Candidates

Your in-house staff may be able to cast a broad enough net to find the best candidates in the marketplace, but this can be accomplished only through a vast amount of research and by extensively developing and working a very broad network. This may take your staff a substantial amount of time. If time is of the essence, this might be another reason to work with an outside executive search firm that already has a vast network in place—a network that can be put to use immediately for your company's search.

In general, executive search firms use a variety of resources to bring the right candidates to the table, including original industry and functional research, their own proprietary databases, company information and online tools to identify the target market. We find that most top search firms engage in a great deal of behind-the-scenes research to produce candidates that fit a particular role.

3. Contact Potential Candidates

As there are many places to post your executive job opening, such as in strategic journals and on online employment sites, most companies choose to do this as standard procedure. Then they wait for the right candidates to respond. This can be a risky approach and can take a long time to find the right candidate if the appropriate parties do not see or respond to your ads.

Outside consultants operate differently. They don't wait for the phone to ring. They discreetly approach prospective candidates, seeking to develop interest in the open position. They informally interview leaders and opinion leaders to test their "happiness quotient" and ask their advice on who might be likely candidates for the open position. They will then interview the candidates, evaluating them against the position specifications and the profile of the ideal candidate.

Only those candidates who most closely fit the client's requirements and have an interest in the opportunity are presented to the client, who will further determine the candidate's qualifications and cultural fit within the

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organization. We spend at least two hours with each candidate so we can completely understand the individual's cumulative experience and motivation for seeking a change. We then provide the client with detailed profiles on each candidate's background.

4. Screen and Check References

Reference checking, of course, is a critical part of the process. Although formal reference checking can be done effectively by in-house staff as well as outside resources, more candid information can be obtained about a candidate when it is gathered by an outside professional.

A candidate's reputation in the industry and professional associations is often as valid a determinant of future success as his or her formal resume and references. Because executive search consultants are natural networkers, they can obtain this informal information

on behalf of the client without even raising the name of the client company.

5. Presenting the Candidates

Your in-house team or your executive search firm then presents the two or three top individuals from their pool of candidates, including comprehensive information about the candidates' backgrounds and qualifications. The more comprehensive this information is, the better, of course. The goal, therefore, is to amass the most objective *and* subjective assessment as possible for each candidate.

The candidates are then prepped as to the culture of the company and its current challenges and opportunities, as well as the challenges and opportunities of the particular position. Either your in-house staff or the outside consultant is well equipped to accomplish this.

One can see why managing the interviewing process is an important task. Not doing so means your chances of hiring the best candidate diminish greatly.

Again, if you are looking for a high degree of subjective as well as objective information on each candidate, the balance may tip toward using an outside agency.

6. Set Up Interviews for the Candidates

What companies need to develop—and what many executive recruiting firms offer as part of their services—is an interview process that results in the hiring of an executive who will fit your culture and work well on the job. Two of the most critical mistakes companies make at this interviewing stage are to allow different people in the company to interview different candidates, and not to have a

discrete and consistent set of questions for each interviewer to ask each candidate. Without controlling these variables, it is very difficult to get a fair assessment of your candidates. The only way to compare candidates is to control this process and then complete a comprehensive evaluation of the interviews.

As an example, Genentech, which *Fortune* magazine has picked as one of the best companies to work for, regards recruiting talented employees as a top priority. For Genentech, recruiting the "right" employee is a lengthy process that can require a candidate returning to the company to interview 5 to 6 times—or even as many as 20 times.

One can see why managing the interviewing process is an important task. Not doing so means your chances of hiring the best candidate diminish greatly. According to research conducted at the University of Michigan, "The typical interview increases the likelihood of choosing the best candidate by less than 2 percent. In other words, if you just flipped a coin, you would be correct 50 percent of the time. If you added an interview, you would be right only 52% of the time."

7. Negotiate

Although your company's staff and your outside consultant are both qualified to present the offer to the winning candidate, often the outside consultant is in a better position to discuss the offer candidly with the individual and be your champion. For example, the consultant is in an excellent position to discuss the offer in relation to industry and professional standards and to uncover any reluctance that can then be brought to the attention of the company. In sum, your consultant can be the buffer between employer and prospective employee regarding the discussions about compensation, benefits,

and responsibilities. The consultant can also be the catalyst for a successful negotiation and agreement. Most candidates are not comfortable negotiating with their future managers and often don't ask for or get what they want, which causes resentment months later.

HOW TO GET THE MOST OUT OF YOUR EXECUTIVE SEARCH FIRM

When making the decision to hire an executive search firm, there are several key criteria to look for. You should always work with a firm that:

- ❑ Is well versed in and experienced with the kinds of searches you are conducting
- ❑ Has depth of knowledge of your industry or the functionality you are seeking, or both
- ❑ Represents your company in a favorable light and becomes your best ambassador

- ❑ Matches your company's style, as the candidates automatically assume that the consultant reflects your company's culture and values
- ❑ Gives your company top priority
- ❑ Provides input in the early stages of the search to raise and clarify issues regarding the position description and candidate criteria
- ❑ Keeps you in the loop at every stage
- ❑ Develops the methodology required for the interviewing process
- ❑ Delivers objective feedback at every stage of the process
- ❑ Offers a competitive fee schedule

Whether you decide to use in-house resources or hire an outside consulting firm, your goal should always be to ensure that you will be able to identify and attract top-notch candidates for each position and build or restore your company's talent pool. Nothing is more critical to your company's long-term success.

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